

ILLINOIS-AMERICAN WATER COMPANY
All Districts
WATER SERVICE

Ill C. C. No. 22
Second Revised Sheet No. 22
Canceling First Revised Sheet No. 22

APPLICABLE TO ALL TERRITORY SERVED EXCLUDING THE LINCOLN AND PEKIN DISTRICTS

CLASSIFICATION OF SERVICE

QUALIFYING INFRASTRUCTURE PLANT SURCHARGE RIDER

DETERMINATION OF THE QUALIFYING INFRASTRUCTURE PLANT SURCHARGE PERCENTAGE

- (A) Terms not otherwise defined in this rider shall have the meaning given to them in 83 Ill. Adm. Code 656.20.
- (B) The qualifying infrastructure plant ("QIP") surcharge percentage shall be expressed as a percentage carried to two decimal places. The QIP surcharge percentage shall be applied to the total amount billed to each customer located in the same rate zone based on the utility's otherwise applicable rates and charges. The QIP surcharge percentage shall be capped at 5% of the QIP base rate revenues billed to customers and shall not be applied to any add-on taxes, to any revenues attributable to the Purchased Water and Sewage Treatment Surcharges developed pursuant to 83 Ill. Adm. Code 655, or to any other revenues not recorded in a QIP base rate revenues account.
- (C) In calculating the QIP surcharge percentage, the utility may choose either annual prospective operation or quarterly historical operation based on QIP investment data for a prior three-month period. Annual prospective operation may be selected only if the utility's immediately preceding rate case utilized a future test year as defined in 83 Ill. Adm. Code 285 and the utility submits the information required by 83 Ill. Adm. Code 656.70(d)(6).

1) Annual Prospective Operation

If the utility chooses to base the QIP surcharge on annual prospective operation, it shall determine the QIP surcharge percentage for the operation year using the following formula:

$$S\% = \frac{(\text{NetQIP} \times \text{PTR}) + \text{NetDep} + (\text{R} \times 1.33) + ((\text{O} + \text{INT}) \times \text{Om})}{\text{PAR}} \times 100\%$$

Where:

S% = QIP surcharge percentage

NetQIP = The average forecasted cost of the investment in QIP for the rate zone for the operation year less forecasted accumulated depreciation in QIP for the rate zone for the operation year. The average forecasted cost of QIP, net of depreciation, shall be computed by using an average of 13 end-of-month

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Ill C. C. No. 22
Original Sheet No. 22.1

QUALIFYING INFRASTRUCTURE PLANT SURCHARGE RIDER (cont'd)

balances of QIP and accumulated depreciation for the period from December 31 of the year preceding the operation year through December 31 of the operation year.

- PTR = Pre-tax return as described in 83 Ill. Adm. Code 656.50(a)(1).
- NetDep = Net depreciation expense related to the average investment in QIP for the rate zone for the operation year. Depreciation expense shall be calculated by multiplying the average forecasted cost of the investment in QIP by plant account, net of retirements, by the approved depreciation rates for the respective accounts in which the specific items included in the average QIP investment are recorded. The average forecasted cost of the investment in QIP by plant account, net of retirements, shall be computed by using an average of 13 end-of-month balances of QIP by plant account and retirements for the period from December 31 of the year preceding the operation year through December 31 of the operation year.
- R = Utility-determined reconciliation component (R component) calculated for the reconciliation year under the reconciliation feature as described in 83 Ill. Adm. Code 656.80(d). The reconciliation component shall be collected over nine months from April through December.
- O = The Commission-ordered adjustment component (O component).
- INT = The calculated interest attributable to the O component. This interest shall be calculated as described in 83 Ill. Adm. Code 656.80(i).
- Om = The Commission-ordered O component multiplier. Om is a timing factor applied to the O component and the INT to allow for the collection of the O component and the INT over the remainder of the operation year. For example, if the O component and the INT were included in the QIP surcharge percentage on January 1, the Om would be 1.00. Similarly, if the O component and the INT were included in the QIP surcharge percentage on April 1, the Om would be 1.33.

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Ill C. C. No. 22
Original Sheet No. 22.2

QUALIFYING INFRASTRUCTURE PLANT SURCHARGE RIDER (cont'd)

PAR = The projection of total water or sewer QIP base rate revenues, as applicable, for the rate zone for the period from January 1 through December 31. The projected revenue shall not include any add-on taxes, any revenues attributable to the Purchased Water and Sewage Treatment Surcharges developed pursuant to 83 Ill. Adm. Code 655, or any other revenues not recorded in a QIP base rate revenues account.

2) Quarterly Historical Operation

If the utility chooses to base the QIP surcharge on quarterly historical operation, it shall determine the QIP surcharge percentage for the quarter using the following formula:

$$S\% = \frac{(\text{NetQIP} \times \text{PTR} \times .25) + \text{NetQDep} + (\text{R} \times .33) + ((\text{O} + \text{INT}) \times \text{Om})}{\text{PQR}} \times 100\%$$

Where:

S% = QIP surcharge percentage.

NetQIP = Original cost of QIP less accumulated depreciation for the rate zone. NetQIP shall be the level of investment in QIP existing at the end of the calendar month preceding the month in which an information sheet is filed.

PTR = Pre-tax return as described in 83 Ill. Adm. Code 656.50(a)(1).

NetQDep = Net quarterly depreciation expense applicable to NetQIP less the quarterly depreciation applicable to plant being retired.

R = Utility-determined reconciliation component calculated for the reconciliation year under the reconciliation feature as described in 83 Ill. Adm. Code 656.80(d). The reconciliation component shall be collected over nine months from April through December. No reconciliation component amount shall be included for the January through March quarter.

O = Commission-ordered adjustment component.

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Ill C. C. No. 22
Original Sheet No. 22.3

QUALIFYING INFRASTRUCTURE PLANT SURCHARGE RIDER (cont'd)

- INT = The calculated interest attributable to the O component. This interest shall be calculated as described in 83 Ill. Adm. Code 656.80(i).
- Om = The Commission-ordered O component multiplier. Om is a timing factor applied to the O component and the INT to allow for the collection of the O component and the INT over the remainder of the operation year. For example, if the O component and the INT were included in the QIP surcharge percentage on January 1, the Om would be 0.25. Similarly, if the O component and the INT were included in the QIP surcharge percentage on April 1, the Om would be 0.33.
- PQR = Projected quarterly water or sewer QIP base rate revenues, as applicable, for the rate zone during the calendar quarter when the QIP surcharge percentage shall be in effect. The projected quarterly revenue shall not include any add-on taxes, any revenues attributable to the Purchased Water and Sewage Treatment Surcharges developed pursuant to 83 Ill. Adm. Code 655, or any other revenues not recorded in a QIP base rate revenues account.

3) Annual Reconciliation

- a) On or before March 15 of each year, if the utility had a QIP surcharge in effect for all or part of the immediately preceding calendar year, it shall submit to the Commission an annual reconciliation regarding the results for the previous reconciliation year. The annual reconciliation shall be verified by an officer of the utility. As required by this Section, the annual reconciliation shall include a calculation of the R component necessary to adjust revenue collected under the QIP surcharge rider in effect for the rate zone during the reconciliation year to an amount equivalent to the actual level of prudently-incurred QIP cost for the reconciliation year. In the event that the earnings report filed under this Section for the rate zone shows that the utility's actual rate of return has exceeded the level authorized in the utility's last water or sewer general rate proceeding, as applicable, then the R component shall include the credit required by subsections (c) and (d). Any adjustment made through the R component shall be in effect for nine months commencing on the April 1 immediately following submittal of the annual reconciliation.

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Ill C. C. No. 22
Original Sheet No. 22.4

QUALIFYING INFRASTRUCTURE PLANT SURCHARGE RIDER (cont'd)

- b) With the annual reconciliation, the utility shall file a petition seeking initiation of the annual reconciliation hearings required by Section 9-220.2 of the Act. After the hearing, the Commission shall determine the amount of the adjustment, if any, that should be made (through the O component) to the level of revenue collected by operation of the QIP surcharge rider during the reconciliation year, so that the amount of such revenue is equal to the actual level of prudently-incurred QIP cost for the reconciliation year (to the extent that such adjustment has not already been reflected through an adjustment made by the utility to the R component of the QIP surcharge percentage).
- c) In the annual reconciliation, the utility shall include, for each rate zone in which a QIP surcharge has been in effect, data showing operating income and rate base for the reconciliation year, such data being developed in accordance with 83 Ill. Adm. Code 656.80(f)(4). If, for any such rate zone, the actual rate of return on rate base for the reconciliation year exceeds the overall rate of return allowed in the utility's last water or sewer general rate proceeding, revenues collected under the QIP surcharge rider shall be reflected as a credit through the R component of the QIP surcharge to the extent that such revenues contributed to the realization of a rate of return above the last approved level. A credit value for the R component will result in a reduction of the QIP surcharge percentage. To the extent, if any, that a required adjustment for a reconciliation year has not been already made by the utility (through the R component), the Commission shall require (through the O component) that such an adjustment be made after the annual reconciliation hearing.
- d) The utility shall calculate the R component using the following formula:

$$R = (\text{ActNetQIP} \times \text{PTR}) + \text{ActNetDep} - \text{QIPRev} + \text{Rpy} + \text{Opy} - \text{EEA}$$

Where:

R = Utility-determined reconciliation component.

ActNetQIP = The average actual cost of the investment in QIP for the rate zone for the reconciliation year less actual accumulated depreciation of QIP for the rate zone for the reconciliation year. The average actual cost of QIP, net of depreciation, shall be computed by using an average of 13 end-of-month balances of QIP and accumulated depreciation for the period from December 31 of the year preceding the reconciliation year through December 31 of the

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Ill C. C. No. 22
Original Sheet No. 22.5

QUALIFYING INFRASTRUCTURE PLANT SURCHARGE RIDER (cont'd)

reconciliation year. (If the utility elects to base the QIP surcharge on quarterly historical operation, the amount of the ActNetQIP shall be limited by the provisions of 83 Ill. Adm. Code 656.70(c).)

PTR = Pre-tax return as described in 83 Ill. Adm. Code 656.50(a)(1).

ActNetDep = Actual net depreciation expense related to the average investment in QIP for the rate zone for the reconciliation year. Depreciation expense shall be calculated by multiplying the actual investment in QIP by plant account, net of retirements, by the approved depreciation rates for the respective accounts in which the specific items included in the average QIP investment are recorded. (If the utility elects to base the QIP surcharge on quarterly historical operation, the amount of the ActNetDep shall be limited by the provisions of 83 Ill. Adm. Code 656.70(c).)

QIPRev = Actual QIP revenues collected during the reconciliation year through the QIP surcharge.

Rpy = The R component from the previous reconciliation year.

Opy = The sum of the O component and the calculated interest attributable to the O component, or the sum of any O components and the calculated interest attributable to the O components, included in the calculation of the QIP surcharge percentage during the reconciliation year.

EEA = Excess earnings amount calculated in accordance with 83 Ill. Adm. Code 656.80, subsections (a), (c), and (f)(4). There will only be an EEA when the utility's actual rate of return for the reconciliation year exceeds the overall rate of return authorized by the Commission in the utility's last water or sewer rate proceeding.

- e) Any adjustment made by Order of the Commission under subsection (b) or (c) shall be included in the O component and be in effect for either 12 months or nine months, beginning on the next January 1 (if 12 months) or April 1 (if nine months) following the Order of the Commission, or such other period as the Commission may direct in the Order requiring that an adjustment be made.

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